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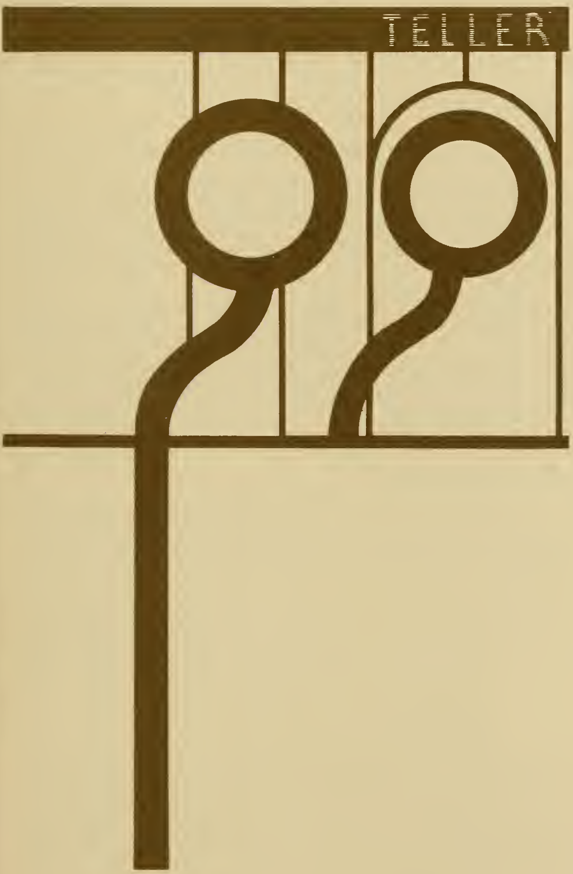
FACTS FOR LENDERS

SINGLE FAMILY RURAL HOUSING LOANS GUARANTEED BY FARMERS HOME ADMINISTRATION



U.S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

PROGRAM AID NO. 1177

The Program - In Brief

The Farmers Home Administration (FmHA), through its Single Family Rural Housing Loan Program, guarantees loans made by lenders to moderate income families to finance adequate but modest homes and building sites in rural areas. This program is administered under Title B of the Housing Act of 1949, as amended.

The basic objective of the program is to assist families in obtaining decent, safe, and sanitary dwellings and related facilities for their own use in rural areas by guaranteeing sound rural housing loans when loans would not be made without a guarantee. Private lenders making the rural housing loans are guaranteed repayment of any loss up to 90 percent of principal and interest.

ELIGIBILITY

Who can make loans?

FmHA ordinarily requires that local lenders make the housing loans it guarantees. A local lender is one located in, or serving the area where the property is located.

Most lenders are eligible. They include national and State banks, Federal land banks, and savings and loan associations. Any other lenders, such as insurance companies, credit unions, and mortgage companies, may be eligible if approved by FmHA.

Who may borrow?

Guaranteed rural housing loans may be made by lenders to families with moderate incomes. These families must—

1. *Not own decent, safe, and sanitary housing.*
2. *Be unable to obtain a loan from private lenders on terms and conditions that they can reasonably to expected to meet without a guarantee.*
3. *Have sufficient income to pay house payments, insurance premiums, taxes and maintenance, other debts, and necessary living expenses.*
4. *Possess the ability and experience to meet loan obligations.*

Under some conditions, holders of long-term leases on farms or building site may be eligible.

Applications from eligible veterans are given preference. Veterans and nonveterans must meet the same requirements.

Each person who applies gets equal consideration without regard to race, color, creed, sex, marital status, or national origin.

If an applicant can obtain a loan without a guarantee, he is not eligible for a guaranteed loan. If an applicant cannot obtain a loan with a guarantee, he may be eligible for an insured rural housing loan made by FmHA.

What is moderate income?

Moderate income is defined periodically by Farmers Home Administration on a state-by-state basis. Information on current limits may be obtained from any FmHA office.

How may loan funds be used?

Home ownership loans may be used to buy, build, improve, repair, or rehabilitate rural homes and related facilities, and to provide adequate water and waste disposal systems.

Homes may be built on individual tracts or in subdivisions. Funds may also be used to modernize homes - add bathrooms, central heating, modern kitchens, and other improvements.

A borrower may buy an existing house and lot or buy a site on which to build a home. Under certain conditions, funds may be used to refinance debts on a home. Funds may be included in the loan to finance lawn seeding and landscaping measures that beautify the home and make it an attractive addition to the community.

What are the rates and equity requirements?

The interest rate which borrowers obtaining these loans may be charged is set by FmHA in accordance with statutory guidelines. The interest rate to the borrower will be the interest rate prescribed by FmHA in effect on the date of the Conditional Commitment for Guarantee.

The borrower must have equity from his own resources of 3 percent of the loan on the first $25,000 and 5 percent of the loan in excess of $25,000 in the form of cash or land. If it is in land, an appraisal must determine the market value.

What are the terms and limitations?

Loans for new and existing homes may be made for up to 97 percent of the market value of the site and the dwelling for loans of up to $25,000 and 95 percent of the loan in excess of $25,000. The maximum repayment period is 33 years. The top limit for loans which will be guaranteed may be ascertained from any FmHA office.

Where may houses be located?

Houses financed with guaranteed rural housing loans will be located in rural areas. Rural areas include open country and places with population of 10,000 or less that are rural in character and not closely associated with urban areas. Loans may be made in towns with populations between 10,000 and 20,000, that are outside of Standard Metropolitan Statistical Areas, if there is a serious lack of mortgage credit for low and moderate income families in these towns. To find out if a particular house is in a rural area, contact the FmHA office serving the area where the house is located.

Houses will be located on sites with an assured supply of safe drinking water and suitable arrangements for sewage disposal. In subdivisions, the houses should be sited in an attractive manner to avoid straight line monotony and to accent and preserve the natural advantages of topography, trees, and shrubbery. The streets, water, and waste disposal systems will meet FmHA requirements.

Is the borrower expected to refinance the loan?

Farmers Home Administration loan guarantees make it possible for moderate income families to become owners of adequate homes. When the financial position of a family improves so that the loan can be

refinanced without a guarantee, the loan contract provides that this will be done.

Who determines applicant eligibility?

The lender makes a determination of eligibility. The Farmers Home Administration County Supervisor will review the determination of eligibility made by the lender.

What about size and design of homes?

Homes will be modest in size and cost but adequate to meet family needs. New homes are expected to average about 1,100 square feet of living area. Cost varies in different areas of the country.

Who furnishes building plans?

Applicants or builders are expected to supply detailed building plans, specifications, and cost estimates. These may be obtained from any reliable source.

Are plans reviewed and is construction inspected?

The lender reviews plans and inspects construction as it progresses. The Farmers Home Administration may also review plans and will always make at least one inspection.

What security is required?

Each loan will be adequately secured to protect the lender's and the Government's interest. The loan will normally be secured by a first mortgage, or a second mortgage in case of a repair loan, on the house, and the site where the house is located.

Are there loan fees and other charges?

The applicant pays for the legal services necessary to guarantee that he has a satisfactory title to site, credit reports, and other incidental loan closing costs. These expenses may be included in the loan. If points are charged, they will be paid by the seller.

Where does one apply?

Make application at the office of an eligible lender.

LOAN PROCESSING

How do you make a guaranteed loan?

Contact the FmHA County Supervisor in the county where the proposed housing will be located. He can advise you on procedure, forms, and requirements for making a pre-application and/or application.

FmHA has more than 1,750 offices serving every rural county in the United States. They are usually located in the county seat. Farmers Home Administration offices are listed in telephone directories under U.S. Government - Agriculture. Location of an office serving a specific county also may be obtained by writing to Farmers Home Administration, USDA, Washington, D.C. 20250.

What is the guarantee fee?

The guarantee fee to FmHA is 1 percent of the principal loan amount multiplied by the percentage of the FmHA guarantee. The fee is paid by the lender who may pass it on to the borrower. The guarantee fee may be included in the loan.

Are there other requirements?

Borrowers and lenders must comply with Federal requirements relating to equal employment opportunity, historic site preservation, flood and mud slide protection, environmental impact, Clean Air and Water Act, and nondiscrimination. Lenders must consider all applications without regard to race, color, creed, sex, marital status, or national origin.

Are guaranteed loans exempt?

The Comptroller of the Currency has ruled that only the nonguaranteed portion of the loan counts against a national bank's legal lending limit per borrower. Bank regulatory agencies in most States have adopted the same rule for State banks under their jurisdiction.

MARKETING OF LOANS

What are the provisions?

For the guaranteed portion of a rural housing loan, the lender has three options.

1. *Loan Note System*
   Separate notes representing the guaranteed and nonguaranteed parts of a rural housing loan may be issued. FmHA will provide a loan note guarantee for each note representing the guaranteed part of a loan. These notes are 100 percent guaranteed by FmHA and may be sold to investors.
2. *Assignment*
   The lender may assign, using the FmHA assignment agreement, all or part of the guaranteed portion of the loan to one or more holders. If assigned in this manner, the assignment will carry a 100 percent guarantee.
3. *Participations*
   The lender may sell participations in the guaranteed portion in accordance with his regular procedures.

For the nonguaranteed portion, the lender may participate in accordance with his regular procedures.

What happens after a lender sells, participates, or assigns part or all of a loan?

Prior to obtaining the guarantee, the local lender contracts with FmHA (by executing a lender's agreement) to collect principal and interest payments on the entire loan and service the loan. Servicing includes keeping in touch with the borrower in order to anticipate any potential problems such as late payment, etc., and meeting with the borrower if a problem does occur.

The local lender is responsible for distribution of principal and interest payments to holders(s), assignee(s), or participant(s), as appropriate. The local lender may deduct a servicing fee agreed upon in advance between the lender and holder(s).

DELINQUENCY AND DEFAULT

What is the lender's responsibility?

It is up to the lender to notify FmHA when a borrower is 30 days overdue on a payment and is unlikely to bring his account current within 60 days, or if a loan otherwise is a problem.

The lender is encouraged to work with the borrower to resolve any problems.

In case of default, the holder(s) will be paid in full. The holder(s) must first request payment from the lender. If the lender does not make payment in full, FmHA will. If the loan cannot be reconstituted, the lender will ordinarily be responsible for liquidating the loan and reselling the property.

The above is general information. The provisions of 7CFR Parts 1980-A and 1980-D are controlling.

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